

THE net worth report

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STRATEGIES FOR WEALTHY CLIENTS

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ADVISOR'S EDGE
REPORT

THIS
ISSUE

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A wealth manager leaves the comfort of a bank to solve his own family planning needs and to tap an underserved market.

Business For A Plan

Manager taps Ontario market entrepreneurs

BY HEIDI STASESON

Tom McCullough understands a thing or two about 20-20 hindsight. The president of Toronto-based Northwood Stephens Private Counsel Inc. credits his former 20-year tenure on the private client side at RBC Dominion Securities as the training ground for his wealth management accumen.

But he acknowledges it's what he couldn't do at the bank that propels him with his wealthy clients today. "The high-net-worth clients we were dealing with were not as well served as they wanted to be. We were trying to find a way to do it, but it's hard to do within a large organization," he explains.

What he really wanted to do was to find a way to serve the comprehensive needs of wealthy families – and not be bogged down by other institutional matters. He reached an epiphany when his own family required specific estate-planning expertise. McCullough was trying to help his father, a reasonably affluent real estate entrepreneur, put his estate in order but he couldn't find the appropriate services within his firm or elsewhere. "Nobody had put it in context for me, so I thought, if I'm like this, there must be lots of other people who need to get some direction and perspective on their situations."



He decided to roll up his sleeves. Such is often the case when people enter the family office arena. What eventually becomes a one-stop wealth management shop for the ultra wealthy, tends to start off as an advisory service for the proprietor's own family business – and that same owner tends to have a multi-disciplinary background in financial services. "When it's

your own money, your own situation, your own family – who do I trust to help us through it? Who's got enough knowledge?" says McCullough. Even so, McCullough knows he can't rely solely on his own expertise to deal with all of the planning issues, so he brings in others who can bolster the range of offerings.

Whether one engages in an estate freeze or a particular insurance tactic depends on the situation, and the family office has to know everything tax-related, right down to the key beneficiaries. "Somebody has to know all the bits and pieces and it's hard to find people who have the knowledge, who are interested in it and who are going to stick with you long term and not just run off," he notes.

Serving both his clients and himself underscores McCullough's pragmatic approach, and he likens his constant quick-change act to people working in a dental office. "You don't do your own teeth; you actually receive the service from one of your colleagues. It's very hard to be objective about your own situations."

It's been four years since

McCullough's firm opened its doors to Ontario's affluent, and with 15 staff and 40 family office clients with a combined net worth in the \$750-million range, his vision seems crystal clear.

McCullough says the strength of his model lies in the combined skill sets of its employees as well as keeping abreast of all centre-of-influence activity. His team runs the gamut of backgrounds, from tax, investment, philanthropy and strategic planning, to actuarial, mergers and acquisitions, compliance and portfolio management. "Each of these guys is knowledgeable in their own area. We provide that overlap because the client's life touches all of these pieces; not just one," he says.

Working with such experts, including clients' external advisors, is key to providing direction, perspective and confidence – the three main tenets of his firm. Because of his clients' diverse portfolio structures, whether they're a corporation, a trust or simply a family member, McCullough handles client cash flow primarily in-house, while on the equity side his team heads out the door to find top-notch money managers. Carefully choosing managers for clients and then watching them like a hawk is a practice that's worked well for McCullough.

In fact, it's this selection process that McCullough cites as the second most important factor that drives his clients' investment portfolios – whether markets are good or bad. "Our goal is to meet client objectives; not follow some benchmark that is up and down based on the whim of traders any one day," he says. Some of his firm's money

managers are smaller, "nichier" types that clients would otherwise have a hard time finding. Unlike mutual fund managers, he says, they tend to be managers that focus on wealthy, private clients or pension funds.

Clients come on board after undergoing a rigorous selection process. For McCullough, prospecting involves finding the right fit, not only from among the very wealthy (average net worth between \$15 million and \$20 million), but more importantly, from prospects who are genuinely interested in taking advice that will help simplify their lives. Most of his prospects come from referrals from satisfied clients and centres of influence such as lawyers and accountants.

McCullough says 90% of his clients have spent the majority of their lives reacting financially instead of seeking a proper game

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plan for their businesses.

New clients also come in the form of the suddenly wealthy. Many of McCullough's clients have never had liquid cash before. "Perhaps they've been an entrepreneur for 25 years and all they have is their business," he explains. "They have a house, an RRSP, maybe a cottage and cars, but they've never had liquid assets; they've only had a business that they've poured their heart and soul into. And then they sell it and suddenly they've got \$20 million. They've never had it before, and never had to deal with it."

Sudden wealth is a common phenomenon and McCullough always tries to get clients to clarify what their objectives are. "That's the touchstone we always come back to," he says.

Part of the job of a good family office is to wear the hat of a counsellor or psychologist from time to time, particularly since clients' objectives are often timed with the markets. McCullough says people can get blinded by greed. "Things can change – they do change – but we have to go back to the touchstone and say 'Remember what our objectives were?'" he says.

"Stock and bond markets are a good example. People set an objective and say this would make me happy; if I achieve this rate of return my needs will be met. When rates of return go up in markets, so people try and chase that. We come back and say, 'Do you remember when we talked about this? We built a portfolio to meet your objectives – not to chase markets.'"

McCullough concedes sometimes it's OK to loosen those reins and say "go for it," and give them the confidence to enjoy their life – "because what's the point of having \$20, \$30 or \$40 million if you can't enjoy it?"

Ultimately, it's the client's money, but if it ever came down to a client ignoring prudent advice, then McCullough's family office would reconsider the relationship. However, that hasn't come up yet, and his clients do take his firm's advice. "We don't always agree – it is their money, but they do use us for a second of sober thought in many cases."

McCullough says he competes with virtually everyone offering financial services to the wealthy such as investment counselors, brokers

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and banks. He knows of a few family offices in Canada, two of whom he says are really good, yet he acknowledges there seems to be some discrepancy in terms of what people think makes a family office authentic. "It's tricky. It's easy to attach the family office name to some other offering," he says.

"For the people who understand family offices, it has a bit of cachet; it makes people think of the Rockefellers and so on and so forth. But the challenge is to dig below the surface and see what is actually offered – what they do, the kind of detail do

they go into; how much they cover; the knowledge and background of their people. That's the test."

McCullough firmly believes the Canadian family office market is ripe for business. "My view is to just do a great job for our clients," he says, thanks to his decision to open a family office. "If there are more people doing that as opposed to selling products, I'm all for it. There's 25,000 people in Canada that have got more than several millions of dollars – and a lot of them are in southern Ontario. There's lots of room for all of us." ■